# Annual Report 2016 - 2017

Dnister Ukrainian Credit Co-operative Limited
ABN 59 087 651 394 | AFSL 240673

# Contents



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# Chairman’s Report

On behalf of the Board of Directors, Executive and Staff of Dnister Ukrainian Credit Co-operative Ltd, I am pleased to present our Annual Report for the year ended 30 June 2017.

The Co-operative's profit before tax of $102,000 was achieved under continuing historically low interest rates, very competitive market pressures on margins and loan paybacks remaining at high levels. The commercial property leasing market also remained subdued.

The Co-operative's financial position continued to strengthen, with total assets under management increasing by $17.7m to $171.0m and our Member’ Equity increasing by $2.7m to $22.2m.

New loan demand was reasonably strong, however repayments to existing loans continued to be at historically high levels due to property sales and additional payments being made by Members.

Members’ savings and deposits increased to $146.1m with loans increasing to $103.3m.

Since June 2007, we have provided a total of $2.58m through absorbed fees/charges, sponsorships, other community support and beneficiary payments. Included within that total is the amount of $223k for the current year comprising the following components:

- $174k in rebated fees and charges through our member loyalty fee rebate program.
- $42k to our Members’ communities supporting schools and other organisations through a variety of sponsorships.
- $7k to Community Saver accounts, which provide community groups with annual beneficiary contributions and fee free transactional banking. These contributions represent a further significant investment by Dnister in our Members.

We have also continued to satisfy our regulatory and compliance requirements.

Corporate governance continues to be a focus of your Board of Directors with our strategic plan being continually reviewed and updated.

There is a strong focus on risk management.

Board reporting has been enhanced over the past year to ensure risk areas are subject to an ongoing review. This process will ensure our governance is strong and member assets are safeguarded.

Consistent with the Board’s strategy, the Board and Management allocated considerable time and effort during 2016/17 to progress a number of significant projects. The most important achievements were as follows-

- In September 2016, we were pleased to complete the legal transfer of business of Latvian Australian Credit Co-operative Society Limited to Dnister with full operational integration completed December 2016. Our Latvian Members now have full access to the Co-operative’s services and benefits.
- Launched our new Visa Debit Card which is compliant to the Payment Card Industry Data Security Standard (PCI DSS).
- Launched Dnister’s Facebook social media presence.
- Progressed work on our new digital internet banking portal.
- Progressed our new digital Mobile App for smartphones.
- Invested in the New Payments Platform (NPP), a major industry initiative to develop new national infrastructure for real-time, flexible, data rich payments in Australia. A significant amount of work has now been completed on this project. NPP functionality will be made available through our new digital internet banking portal and Mobile App when the industry initiative is launched in 2018.

Since the last AGM, Natalya Jurcheshin resigned her position on the Board due to other commitments. I would like to express the Board's gratitude to Natalya for her contribution and wish her well.

Subsequently, Bohdan Wojewidka was appointed to the Board on a casual basis effective from 1 July 2017 to fill the vacant position until the next AGM.

In January 2017, Tony O’Brien was appointed to the Chief Financial Officer position and we welcome him to the Executive team. Tony is a Chartered Accountant and brings a depth of experience to the Co-operative.

On behalf of the Board, I would like to thank our CEO Liam Tiernan, the Executive team and staff for their hard work and dedication to achieve these results and for continuing to serve the needs of our Members.

I would like to thank my fellow Directors for their valuable contribution during the year.

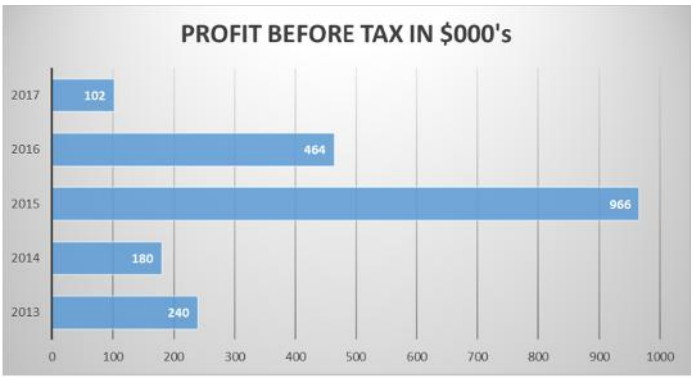
Most importantly, I would like to thank you, our Members, for your continued loyalty and support. I encourage you to fully utilise the products and services that Dnister offers to continue building the strength of your Co-operative. You can help Dnister grow and prosper by making Dnister your main financial services provider.

As a Member-owned financial institution, Dnister is committed to providing value for our Members.

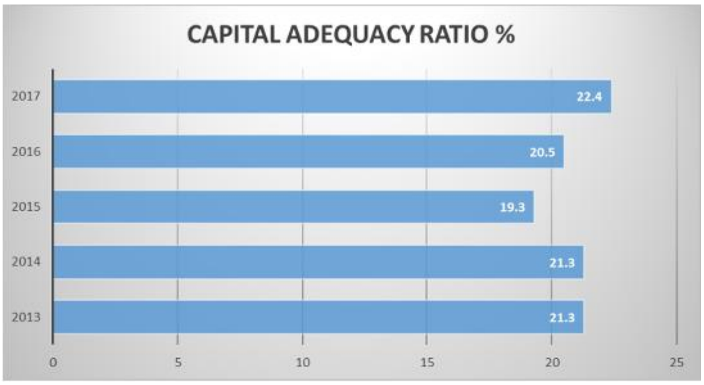
Wal Mykytenko
**Chairman**

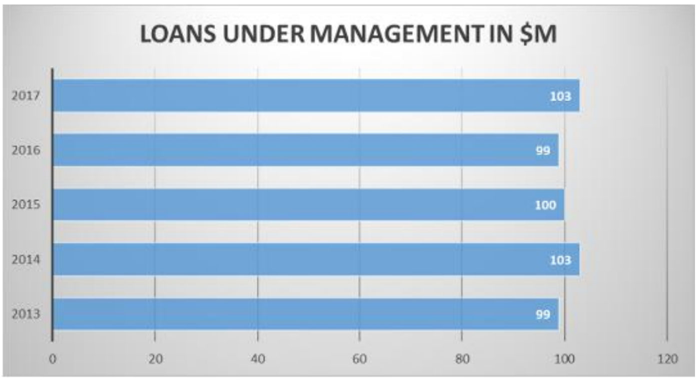
# Highlights

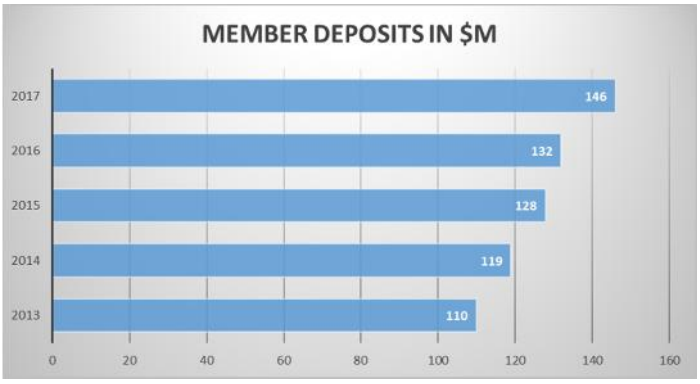

MEMBERS EQUITY IN $M
2017
22.2
2016
19.3
2015
18.9
2014
17.5
2013
17.3
0
5
10
15
20
25


PROFIT BEFORE TAX IN $000's
2017
102
2016
464
2015
966
2014
180
2013
240
0
100
200
300
400
500
600
700
800
900
1000


TOTAL ASSETS IN $M
2017
171
2016
153
2015
149
2014
139
2013
131
0
20
40
60
80
100
120
140
160
180


CAPITAL ADEQUACY RATIO %
2017
22.4
2016
20.5
2015
19.3
2014
21.3
2013
21.3
0
5
10
15
20
25


LOANS UNDER MANAGEMENT IN $M
2017
103
2016
99
2015
100
2014
103
2013
99
0
20
40
60
80
100
120


MEMBER DEPOSITS IN $M
2017
146
2016
132
2015
128
2014
119
2013
110
0
20
40
60
80
100
120
140
160

# Directors' Report

Your Directors submit their report for the year ended 30 June 2017:

## DIRECTORS

The names and details of the Co-operative's Directors in office during the financial yearor until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

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**WALENTYN MYKYTENKO** (Chairman)

B.E., Post Grad Dip. Eng.Mgt., Dip. Elec. Eng., Dip. Financial Services, AMP (MUBS), FAMI, MAICD.

*Non-Executive Chairman and Corporate Governance Committee Chairman.*

Wal is a retired General Manager of a multi-national aviation company and is a Non-Executive Director of the Co-operative. Wal has been a Non-Executive Director of the Co-operative for thirteen years, including the last nine years as Chairman, and is the Chair of the Corporate Governance Committee.

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**DAVID HASSETT** (Deputy Chairman)

B.Sc (Hons), Ph D, Grad Dip App Sci (Comp Sci) MAICD.

*Non-Executive Deputy Chairman, Risk Committee Chairman and Audit Committee Member*

David trained as a scientist and worked for Universities in Australia and the United States before co-founding an I T and Business Services Consultancy in 1997. A key focus of David's work is the smooth integration of I T systems with business processes and aiding clients to streamline and improve existing business processes. David has served as Parish Treasurer for the Cathedral of Sts Peter and Paul, has been on the state Committee of Plast Ukrainian Scouts in Victoria since 2005 and served as Chairperson of the Dnister Community Advisory Committee from 2003-2008.

David has been a Non-Executive Director of the Co -operative for two years.

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**MICHAEL KORNITSCHUK** (Director)

B. Sci., Grad Cert. Mgt., Dip Mgt., Dip. App .Bio., MAICD.

*Non-Executive Director and Audit, Risk and Corporate Governance Committees Member*

Michael combines his work as a Managing Director of a leading Australian supplier of medical goods and services with his role as Non-executive Director of the Co-operative.

Michael has been a Non-Executive Director of the Co-operative for twenty-three years, including nine as Chairman. During the past twelve years he has also served as Chairman of the Ukrainian Orthodox Church- Essendon.

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**MARKO MISKO** (Director)

L L B (Hons 1), B.Com. , MAICD.

*Non-Executive Director, Corporate Governance Committee Member.*

Marko combines his work as a Partner at Clayton Utz in the national infrastructure and major projects group with his role as Non-executive Director of the Co-operative. Marko was responsible for the negotiation and finalisation of the project contracts for the redevelopment of the Kalyna Care facilities (and continues to provide Kalyna Care with ongoing legal advice). Marko was also responsible for preparing documents for the redevelopment of the C Y M property in Healesville and will be responsible for the project development agreements for the redevelopment of the A U V properties in Essendon.

Marko is also the chair of D O F U S and has been a Non-Executive Director of the Co-operative for eight years.

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# Directors' Report

Continued . . .

**MICHAEL KWAS** (Director)

B.Bus (Acc), MAICD.

*Non-Executive Director, Audit and Risk Committees Member.*

Michael is a retired Accountant and has well over forty years' experience in the industry. Michael has been involved in numerous community organisations such as: a Scout Leader for over twenty-six years for the Plast Ukrainian Scouts Association (State and Federal Executive), a member of the Ukrainian Golf Club, a member of the Association of Ukrainians in Victoria and Sunshine and the Ukrainian Church in Ardeer.

Michael has been a Non-Executive Director of the Co-operative for six years.

**ANDREW PAVUK** (Director)

B. Arts, Dip of Ed, B Law, Solicitor and Member of the Law Society of NSW, MAICD.

*Non-Executive Director and Audit, Risk and Corporate Governance Committees Member*

Andrew established Pavuk Legal in 2007 and with over 25 years' experience is a specialist in the areas of Financial Services, Corporate Law, Taxation, Life Insurance, Superannuation, Managed Funds, Estate Planning and Succession. Andrew has acted for Plast K P S Executive, the Ukrainian Catholic Church in Australia, various parishes, priests and Charitable Funds.

Andrew has been a Non-Executive Director of the Co -operative for two years.

**NATALYA JURCHESHIN** (Director)

B. Comm, CA (Aust and NZ).

*Non-Executive Director, Audit Committee Chair and Risk Committee Member*

Natalya is a senior financial leader with a depth and breadth of experience in managing, improving and growing finance functions of listed and other small to medium sized organisations. She has over 12 years' experience as a CFO, ten of these with ASX listed biotechnology companies. Prior to that, she was a Senior Manager in the audit and assurance practice of Arthur Andersen (now part of Ernst & Young) working with clients in a wide variety of industries. Over three of her twelve years with Arthur Andersen she worked in Kyiv, Ukraine, where she joined a small team of pioneer expatriates to set up operations for Arthur Andersen's Kyiv office.

Natalya was a Non-Executive Director of the Co -operative for one year and resigned effective 30 June 2017.

**BOHDAN WOJEWIDKA** (Director)

B. App Sc (Comp Stud, Bus Admin), MBA, GAICD

*Non-Executive Director, Audit and Risk Committees Member*

Bohdan is based in Adelaide and has an extensive background as a Chief Information Officer / General Manager for major Australian corporations. His most recent position was General Manager – Technology at People's Choice Credit Union from January 2015 to March 2017. Bohdan was previously employed at ABB Grain Ltd as Executive Manager (Business Process and Information Systems), South Australian Chamber of Mines and Energy (Assistant Chief Executive) and at Newmont Australia as (Executive General Manager – Business Information and Communications Technology). Bohdan is currently serving on the Management Committee of the Association of Ukrainians in South Australia, and also as Deputy President/Treasurer of the Ukrainian Youth Association – Plast in South Australia.

Bohdan was appointed on 1 July 2017 to fill a casual vacancy on the Board and will stand for election at the 2017 Annual General Meeting. He was previously a Director of Dnister from November 2011 to April 2015.

# Directors' Report

Continued . . .

## COMPANY SECRETARY

LIAM TIERNAN

BBus (Acc), CPA

Liam was appointed Chief Executive Officer of the Co-operative on 17 September 2012 and was appointed the Company Secretary on 16 October 2012.

TONY O'BRIEN

BBus (Acc), BA (Politics), CA

Tony was appointed Chief Financial Officer of the Co-operative on 16 January 2017 and was appointed an alternative Company Secretary on 27 June2017.

## PRINCIPAL ACTIVITIES

The principal activities of the Co-operative during the financial year were the provision of retail financial services, which includes receiving funds on deposits, advancing loans, providing insurance products, and the leasing of Dnister property.

## OPERATING AND FINANCIAL REVIEW

The Co-operative`s net profit after income tax for the year ending 30 June 2017 is $82,000 (2016: $322,000).

Total Assets under management increased by $17.7m to $171.0m with Members' Equity increasing by $2.7m to $22.2m. Our loan portfolio increased by $4.6m to $103.3m while deposits grew by $14.5m to $146.1m.

## DIVIDENDS

In accordance with the constitution, no dividend is paid in respect of any shares.

## BOARD MONITORING OF PERFORMANCE

Management and the Board monitor the Co-operative's overall performance from the implementation of the mission statement and strategic plan through to the performance of the company against budget. The Board, together with management, have identified key performance indicators (KPIs) that are used to monitor performance. Management monitors KPIs and reviews performance against them monthly. Directors receive KPIs for review prior to each Board meeting allowing all Directors to actively monitor the Co- operative's performance.

## LIQUIDITY AND FUNDING

The Co-operative has a short-term overdraft facility of $350,000 (2016: $350,000). The Co-operative has sufficient funds to finance its operations and maintains these facilities primarily to allow the Co-operative to take advantage of favourable credit union financing opportunities. The Co-operative also has a $13,000,000 wholesale funding facility with IOOF.

## RISK MANAGEMENT

The Co-operative takes a pro-active approach to risk management. The Board is responsible for ensuring that risks, and also opportunities, are identified on a timely basis and that the Co-operative's objectives are aligned with those risks and opportunities.

The Board has a number of mechanisms in place to ensure that management's objectives and activities are aligned with the risks and opportunities identified by the Board. These include the following:

- Board approval of the Strategic Plan, which encompasses the Co- operative's vision, mission and goals, designed to meet Members' needs and manage business risk.
- Implementation of Board approved operating plans and budgets and Board monitoring of progress against budget, including the establishment and monitoring of KPIs of both a financial and non- financial nature.
- The establishment of committees to report on specific business risks.

## SIGNIFICANT CHANGES IN STATE OF AFFAIRS

Total Equity has increased from $19,486,000 to $22,183,000, an increase of $2,697,000, while Loans and Advances increased from $98,691,000 to $103,306,000. Member Deposits increased from $131,609,000 to $146,144,000.

## SIGNIFICANT EVENTS AFTER BALANCE DATE

There were no significant events after balance date to be brought to the attention of Members for the financial year ended 30 June 2017.

## LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The operations of the Co-operative are expected to continue in line with current objectives and strategies.

## INDEMNITY AND INSURANCE

To the extent permitted by law and that the officer or auditor is not indemnified by Directors' and Officers' Liability Insurance maintained by the Co-operative (2017: $5,156 in premiums), the Co- operative indemnifies every person who has been an officer or auditor of the Co-operative against any liability.

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# Directors' Report

Continued . . .

## DIRECTORS' MEETINGS

The number of Directors' meetings attended by each Director and the number of meetings Directors were eligible to attend for the financial year were as shown in the table below:

| | | Meetings of Committees | | |
|---|---|---|---|---|
| | Board Meetings | Audit Committee | Risk Committee | Corporate Governance |
| Number of meetings held: | 10 | 8 | 7 | 4 |
| Number of meetings attended: | | | | |
| W Mykytenko | 10 | - | - | 4 |
| M Kornitschuk | 7 | 8 | 5 | 1 (of 1) |
| M Misko | 5 | - | - | 4 |
| M Kwas | 9 | 7 | 7 | - |
| D Hassett | 10 | 8 | 7 | - |
| A Pavuk | 10 | 1(of 2) | 5 | 3 (of 3) |
| N Jurcheshin | 8 | 8 | 7 | - |

## COMMITTEE MEMBERSHIP

As at the date of this report, the Co-operative had an Audit Committee, Risk Committee and Corporate Governance Committee.

Members of the Board acting on the committees of the Board at the end of the year were:

### AUDIT COMITTEE

N Jurcheshin (Chair)
M Kwas
D Hassett
M Kornitschuk
A Pavuk

### RISK COMMITTEE

D Hassett (Chair)
M Kwas
M Kornitschuk
A Pavuk
N Jurcheshin

### CORPORATE GOVERNANCE COMMITTEE

W Mykytenko (Chair)
M Misko
M Kornitschuk
A Pavuk

## ROUNDING

The amounts contained in this report and in the financial report have been rounded to the nearest $1,000 (where rounding is applicable) under the option available to the company under ASIC CO 98/100. The Co-operative is an entity to which the Class Order applies.

# Auditor’s Independence Declaration

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Building a better working world

## Auditor’s Independence Declaration to the Directors of Dnister Ukrainian Credit Co-operative Limited

As lead auditor for the audit of Dnister Ukrainian Credit Co-operative Limited for the financial year ended 30 June 2017, I declare to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

Ernst & Young

Ernst & Young

# Non-Audit Services

The following non-audit services were provided by the entity`s auditor Ernst & Young. The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised. Ernst & Young received or are due to receive the following amounts for the provision of non-audit services:

| | |
|---|---|
| Tax compliance services | $11,000 |

The report is signed in accordance with a resolution of the Directors of the Co-operative.

On behalf of the Board

Walentyn Mykytenko
Chairman of the Board
27 September 2017

Michael Kornitschuk
Chairman of the Audit Committee
27 September 2017

# Corporate Governance Statement

The Board of Directors of Dnister Ukrainian Credit Co-operative Limited is responsible for the corporate governance of the Co-operative. The Board guides and monitors the business and affairs of the Co-operative on behalf of the Members by whom they are elected and to whom they are accountable. An important feature of the Board is to ensure compliance with the prudential and solvency requirements of the Australian Prudential Regulatory Authority (APRA) and the Australian Securities & Investments Commission (ASIC).

The key responsibilities of the Board include:

- Approving the strategic direction and related objectives and monitoring management performance in the achievement of these objectives.
- Adopting an annual budget and monitoring the financial performance of the Co-operative.
- Overseeing the establishment and maintenance of internal controls and effective monitoring systems.
- Ensuring all major business risks are identified and effectively managed.
- Ensuring the Co-operative meets its legal and statutory obligations.

The Board of Directors undertakes regular performance assessments to identify areas of skills enhancements and additional training.

## STRUCTURE OF THE BOARD

Directors of the Co-operative are considered to be independent and free from any business or other relationship that could interfere with, or could be perceived to materially interfere with the exercise of their unfettered and independent judgement.

# Corporate Governance Statement

Continued . . .

## AUDIT AND RISK COMMITTEES

The Board has both an Audit Committee and Risk Committee, which operate under charters approved by the Board. It is the Board's responsibility to ensure that an effective internal control framework exists in the entity. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records, and the reliability of financial information.

The Audit Committee provides the Board with additional assurance regarding the reliability of financial information for inclusion in the financial reports. The Board has delegated the responsibility for the establishment and maintenance of a risk framework to the Risk Committee.

The Members of the Audit Committee and Risk Committee at the end of the year were:

| AUDIT | RISK |
|---|---|
| N Jurcheshin (c) | D Hassett (c) |
| M Kornitschuk | M Kornitschuk |
| A Pavuk | A Pavuk |
| M Kwas | N Jurcheshin |
| D Hassett | M Kwas |

## CORPORATE GOVERNANCE COMMITTEE

The Board has a Corporate Governance Committee, which operates under a charter approved by the Board. It is the Board's responsibility to ensure that there is sound and prudent management of the Co-operative. The Board has delegated the responsibility for the establishment and maintenance of principles of Good Corporate Governance and Best Practice to the Corporate Governance Committee.

It is the Co-operative's objective to provide maximum stakeholder benefit through the retention of an executive team by remunerating key executives fairly and appropriately with reference to employment market conditions. To assist in achieving this objective, the Corporate Governance Committee links the nature and amount of the executive's emoluments to the company's financial and operational performance.

The Members of the Corporate Governance Committee at the end of the year were:

W Mykytenko (c)
M Kornitschuk
M Misko
A Pavuk

No Director, since the end of the previous financial year, has received or become entitled to receive a benefit (other than a benefit in the aggregate amount of emoluments received or due and receivable by the Directors as shown in the accounts) by reason of a contract made by the company with a Director or with a firm of which he is member or with a company in which he has a substantial financial interest.

The term in office held by each Director at the date of this report is as follows:

| | |
|---|---|
| M Kornitschuk | 23 years |
| W Mykytenko | 13 years |
| M Misko | 8 years |
| M Kwas | 6 years |
| D Hassett | 2 years |
| A Pavuk | 2 years |
| N Jurcheshin | 1 year |

# Financial Statements



# Notes

## NOTES TO THE FINANCIAL STATEMENTS

# Directors’ Declaration

for the year ended 30 June 2017

In accordance with a resolution of the Directors of Dnister Ukrainian Credit Co-operative Limited, we state that:

1. In the opinion of the Directors:

   (a) the financial statements and notes of the Co-operative are in accordance with the Corporations Act 2001 including:

   - giving a true and fair view of the company's financial position as at 30 June 2017 and of its performance for the year ended on that date; and
   - complying with Accounting Standards in Australia and the Corporations Regulations 2001;

   (b) there are reasonable grounds to believe that the Co-operative will be able to pay its debts as and when they become due and payable; and

   (c) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 2.

2. This declaration has been made after receiving the declarations required to be made by the Directors in accordance with section 295A of the Corporations Act 2001 for the financial period ending 30 June 2017.

On behalf of the Board

Walentyn Mykytenko
Chairman of the Board
27 September 2017

Michael Kornitschuk
Chairman of the Audit Committee
27 September 2017

# Independent Auditor’s Report

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## Independent Auditor's Report to the Members of Dnister Ukrainian Credit Co-operative Limited

### Opinion

We have audited the financial report of Dnister Ukrainian Credit Co-operative Limited (the Company), which comprises the statement of financial position as at 30 June 2017, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Company is in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the Company's financial position as at 30 June 2017 and of its financial performance for the year ended on that date; and

b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

### Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Information Other than the Financial Report and Auditor's Report Thereon

The directors are responsible for the other information. The other information is the directors' report accompanying the financial report.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

# Independent Auditor’s Report



### Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Company’s ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

### Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors’ use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ernst & Young

T M Dring
Partner
Melbourne
27 September 2017

# Statement of Comprehensive Income

for the year ended 30 June 2017

| | Notes | 2017 $'000 | 2016 $'000 |
|---|---|---|---|
| **INCOME** | | | |
| Interest and similar income | 3 | 5,798 | 5,785 |
| Interest and similar expense | 4 | (2,802) | (3,048) |
| Net interest income | | 2,996 | 2,737 |
| Fees and commission income | 5 | 103 | 109 |
| Net fees and commission income | | 103 | 109 |
| Other operating income | 6 | 1,120 | 1,138 |
| Total operating income | | 4,219 | 3,984 |
| Credit loss expense | 7 | (53) | (2) |
| Net operating income | | 4,166 | 3,982 |
| Salaries and associated costs | | 1,996 | 1,664 |
| Depreciation | 14.1 & 14.2 | 105 | 91 |
| Community grants and sponsorship | 22 | 33 | 43 |
| Other operating expenses | 8 | 1,930 | 1,720 |
| Total operating expenses | | 4,064 | 3,518 |
| Profit before tax | | 102 | 464 |
| Income tax benefit/(expense) | 9(a) | (20) | (142) |
| **NET PROFIT ATTRIBUTABLE TO MEMBERS** | | **82** | **322** |
| **OTHER COMPREHENSIVE INCOME** | | | |
| Fair value revaluation of land and buildings | | - | 200 |
| Fair value revaluation of available for sale investments | | 518 | (87) |
| Adjustment to deferred tax due to timing differences on revalued assets | | (155) | (34) |
| Other comprehensive income for the period, net of tax | | 363 | 79 |
| Total comprehensive income for the period | | 445 | 401 |

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

# Statement of Financial Position

as at 30 June 2017

| | Notes | 2017<br>$'000 | 2016<br>$'000<br>Restated* |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | 10 | 13,244 | 8,294 |
| Financial investments - held to maturity | 11.1 | 15,532 | 11,594 |
| Financial investments - available for sale | 11.2 | 26,562 | 22,625 |
| Loans and advances to Members | 12 | 103,306 | 98,691 |
| Investment properties | 13 | 2,974 | 2,974 |
| Property & equipment | 14.1 | 8,737 | 8,692 |
| Intangibles | 14.2 | 181 | 96 |
| Other financial investments | 15 | 20 | 20 |
| Other assets | 16 | 403 | 331 |
| Total Assets | | 170,959 | 153,317 |
| **LIABILITIES AND EQUITY** | | | |
| Member deposits | 17 | 146,144 | 131,609 |
| Current tax liabilities | | (74) | 30 |
| Other liabilities | 18 | 1,511 | 1,127 |
| Provisions - employees | 19 | 351 | 316 |
| Deferred net tax liabilities | 9(d) | 844 | 749 |
| Total Liabilities | | 148,776 | 133,831 |
| Retained earnings | 20 | 11,113 | 11,070 |
| Credit loss reserve | 20 | 620 | 466 |
| Business combination reserve | 20 | 4,440 | 2,303 |
| Asset revaluation reserve | 20 | 5,708 | 5,708 |
| Available for sale investments reserve | 20 | 302 | (61) |
| Total Equity | | 22,183 | 19,486 |
| TOTAL LIABILITIES AND EQUITY | | 170,959 | 153,317 |

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

* Certain amounts shown here do not correspond to the 2016 financial statements and reflect adjustments made, refer to Note 9 (e).

# Statement of Changes in Equity

for the year ended 30 June 2017

| | Retained Earnings<br>$'000 | Other Reserves see (note 20)<br>$'000 | Total<br>$'000 |
|---|---|---|---|
| TOTAL AT 1 JULY 2016 | 11,070 | 8,416 | 19,486 |
| Net profit attributable to Members | 82 | - | 82 |
| Other comprehensive income | | 363 | 363 |
| Total comprehensive income | 82 | 363 | 445 |
| Net change in DTA and DTL | 77 | | 77 |
| Increase in statutory amount set aside for potential losses on loans and advances | (115) | 115 | - |
| Net change from merger | - | 2,176 | 2,176 |
| TOTAL AT 30 JUNE 2017 | 11,113 | 11,070 | 22,183 |

| | Retained Earnings<br>$'000<br>Restated* | Other Reserves see note (20)<br>$'000 | Total<br>$'000 |
|---|---|---|---|
| TOTAL AT 1 JULY 2015 | 10,725 | 8,360 | 19,085 |
| Net profit attributable to Members | 322 | - | 322 |
| Other comprehensive income | - | 79 | 79 |
| Total comprehensive income | 322 | 79 | 401 |
| Increase in statutory amount set aside for potential losses on loans and advances | 23 | (23) | - |
| TOTAL AT 30 JUNE 2016 | 11,070 | 8,416 | 19,486 |

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

* Certain amounts shown here do not correspond to the 2016 financial statements and reflect adjustments made, refer to Note 9 (e).

# Statement of Cash Flows

for the year ended 30 June 2017

| | Notes | 2017 | 2016 |
|---|---|---|---|
| | | $'000 | $'000 |
| **OPERATING ACTIVITIES** | | | |
| Profit before tax | | 102 | 464 |
| Adjustments for: | | | |
| - Changes in operating assets | 21 | 30 | 14 |
| - Changes in operating liabilities (including tax payable) | 21 | (347) | (327) |
| - Non-cash items included in profit before tax | 21 | 158 | (30) |
| - Income tax paid | | - | (186) |
| - Net increase in member deposits | | 2,031 | 3,966 |
| - Net decrease in loans and advances | | 581 | 1,145 |
| Net cash flows from operating activities | | 2,555 | 5,046 |
| **INVESTING ACTIVITIES** | | | |
| Net negotiable certificate deposit investments sold/(purchased) | | 5,703 | 6,208 |
| Net purchase of available for sale investments | | (3,850) | (9,493) |
| Net cash acquired through transfer of business | | 778 | - |
| Net increase in other investments | | - | (25) |
| Net purchases of property and equipment and intangible assets | | (236) | (92) |
| Net cash flows used in investing activities | | 2,395 | (3,402) |
| Net increase/(decrease) in cash and cash equivalents | | 4,950 | 1,644 |
| Cash and cash equivalents at 1 July | | 8,294 | 6,650 |
| Cash and cash equivalents at 30 June | 21 | 13,244 | 8,294 |
| **OPERATIONAL CASH FLOWS FROM INTEREST AND DIVIDENDS** | | | |
| Interest received | | 5,732 | 5,851 |
| Interest and other costs of finance paid | | 2,867 | 2,860 |
| Dividends received | | 11 | 16 |

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2017

## 1. CORPORATE INFORMATION

Dnister Ukrainian Credit Co-operative Limited is a company incorporated in Australia.

Dnister is a member owned Co-operative specialising in serving the financial needs of Australians of Ukrainian and Latvian decent, heritage or cultural affinity. The nature of the operations and principal activities of the Co-operative are described in the Directors' Report.

The financial report of the Co-operative for the year ended 30 June 2017 was authorised for issue in accordance with a resolution of Directors on 26 September 2017.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 2.1 BASIS OF PREPARATION

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. It has been prepared as a 'for profit entity' as per AASB1054.8. The financial report has also been prepared on a historical cost basis, except for investment properties, land and buildings and available for sale investments, which have been measured at fair value.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars ($000) unless otherwise stated.

### 2.2 STATEMENT OF COMPLIANCE

The financial report complies with Australian Accounting Standards issued by the Australian Accounting Standards Board (AASB) and International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

### 2.3 NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

(i) Changes in Accounting Policy

There were no new Australian Accounting Standards that have recently been issued or amended and have been adopted by the Co-operative for the annual reporting period ending 30 June 2017.

(ii) Accounting Standards issued but not yet effective

There are certain Australian Accounting Standards that have recently been issued or amended but are not yet effective or have not been adopted by the Co-operative for the annual reporting period ending 30 June 2017. The assessment of the impact of these new standards and interpretations (to the extent relevant to the Co-operative) is set out as follows:

| Pronouncement | Title | Summary | Application date | Impact on financial report |
|---|---|---|---|---|
| AASB 9, and relevant amending standards | *Financial Instruments* | AASB 9 replaces AASB 139 *Financial Instruments: Recognition and Measurement*.<br>Except for certain trade receivables, an entity initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.<br>Debt instruments are subsequently measured at fair value through profit or loss (FVTPL), amortised cost, or fair value through other comprehensive income (FVOCI), on the basis of their contractual cash flows and the business model under which the debt instruments are held.<br>There is a fair value option (FVO) that allows financial assets on initial recognition to be designated as FVTPL if that eliminates or significantly reduces an accounting mismatch.<br>Equity instruments are generally measured at FVTPL. However, entities have an irrevocable option on an instrument-by-instrument basis to present changes in the fair value of non-trading instruments in other comprehensive income (OCI) without subsequent reclassification to profit or loss.<br>For financial liabilities designated as FVTPL using the FVO, the amount of change in the fair value of such financial liabilities that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation in OCI of the fair value change in respect of the liability's credit risk would create or enlarge an accounting mismatch in profit or loss.<br>All other AASB 139 classification and measurement requirements for financial liabilities have been carried forward into AASB 9, including the embedded derivative separation rules and the criteria for using the FVO.<br>The incurred credit loss model in AASB 139 has been replaced | 1 January 2018 | The new standard will be assessed for impact during the 2017-18 financial year. |
| AASB 15, and relevant amending standards | *Revenue from Contracts with Customers* | AASB 15 replaces all existing revenue requirements in Australian Accounting Standards (AASB 111 *Construction Contracts*, AASB 118 *Revenue*, AASB Interpretation 13 *Customer Loyalty Programmes*, AASB Interpretation 15 *Agreements for the Construction of Real Estate*, AASB Interpretation 18 *Transfers of Assets from Customers* and AASB Interpretation 131 *Revenue – Barter Transactions Involving Advertising Services*) and applies to all revenue arising from contracts with customers, unless the contracts are in the scope of other standards, such as AASB 117 (or AASB 16 *Leases*, once applied).<br>The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with the core principle by applying the following steps:<br>► Step 1: Identify the contract(s) with a customer<br>► Step 2: Identify the performance obligations in the contract<br>► Step 3: Determine the transaction price<br>► Step 4: Allocate the transaction price to the performance obligations in the contract<br>► Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation. | 1 January 2019 | These amendments are not expected to have a material impact on the financial statements |

| Pronouncement | Title | Summary | Application date | Further information |
|---|---|---|---|---|
| AASB 16 | *Leases* | AASB 16 requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under AASB 117 *Leases*. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset).<br>Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.<br>Lessees will be required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.<br>Lessor accounting is substantially unchanged from today's accounting under AASB 117. Lessors will continue to classify all leases using the same classification principle as in AASB 117 and distinguish between two types of leases: operating and finance leases. | 1 January 2019 | The new standard will be assessed for impact during the 2017-18 financial year. |
| AASB 2016-1 | *Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses* | This Standard makes amendments to AASB 112 *Income Taxes* to clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value. | 1 January 2017 | The amendments are not expected to have a material impact on the financial statements. |
| AASB 2016-2 | *Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107* | The amendments to AASB 107 *Statement of Cash Flows* are part of the IASB's Disclosure Initiative and help users of financial statements better understand changes in an entity's debt. The amendments require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). | 1 January 2017 | The amendments are not expected to have a material impact on the financial statements. |
| AASB 2017-1 | *Amendments to Australian Accounting Standards – Transfers of Investments Property, Annual Improvements 2014-2016 Cycle and Other Amendments* | The amendments clarify certain requirements in:<br>▸ AASB 1 *First-time Adoption of Australian Accounting Standards* – deletion of exemptions for first-time adopters and addition of an exemption arising from AASB Interpretation 22 *Foreign Currency Transactions and Advance Consideration*<br>▸ AASB 12 *Disclosure of Interests in Other Entities* – clarification of scope<br>▸ AASB 128 *Investments in Associates and Joint Ventures* – measuring an associate or joint venture at fair value<br>▸ AASB 140 *Investment Property* – change in use. | 1 January 2018 | The amendments are not expected to have a material impact on the financial statements. |

## 2.4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

In the process of applying the Co-operative's accounting policies, Management has used its judgements and made estimates in determining amounts recognised in the financial statements. The most significant use of judgements and estimates are as follows:

**RECOVERY OF DEFERRED TAX ASSETS**

Deferred tax assets are recognised for deductible temporary differences as Management considers that it is probable that future taxable profits will be available to utilise those temporary differences.

**FAIR VALUE OF FINANCIAL INSTRUMENTS**

Where the fair values of financial assets and financial liabilities recorded on the Statement of Financial Position cannot be derived from active markets they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values.

**IMPAIRMENT LOSSES ON LOANS AND ADVANCES**

The Co-operative assesses at each Statement of Financial Position date whether a financial asset or group of financial assets is impaired.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition).

There are three ways that impairment losses on loans and advances are accounted for. They are as follows:

- Prescribed Provisions, which are prescribed collectively according to category of loan and weighted according to days in arrears, and is an APRA requirement.
- Credit Loss Reserve provides for impairment based on risk weighted assets, delinquencies and an allowance for the size of the total loans portfolio. It is an APRA requirement.
- Specific Provisions are determined by Management together with the Board of Directors where they consider it prudent to put extra provisions aside for a specific loan on an individual basis.

The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the loss is recognised in Statement of Comprehensive Income.

The Co-operative assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and the group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in Statement of Comprehensive Income, to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date.

**PROPERTY**

Some of the Co-operative’s property is leased out on a commercial basis. Those buildings that are fully leased are now classified as investment properties. The main 'banking building' is still classified as owner-occupied because a significant section of the property is used by the Co-operative for its banking activities. These judgments are consistent with AASB140 Investment Property classification.

**TAXATION**

The Co-operative’s accounting policy for taxation requires Management's judgement as to the types of arrangements considered to be a tax on income in contrast to an operating cost. Judgement is also required in assessing whether deferred tax assets and certain deferred tax liabilities are recognised on the Statement of Financial Position. Deferred tax assets, including those arising from unrecouped tax losses, capital losses and temporary differences, are recognised only when it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits.

Assumptions about the generation of future taxable profits depend on Management’s estimates of future cash flows. These depend on estimates of future sales volume, operating costs, restoration costs, capital expenditure, dividends and other capital Management transactions. Judgements are also required about the application of income tax legislation. These judgements and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognised on the Statement of Financial Position and the amount of other tax losses and temporary differences not yet recognised. In such circumstances, some or all of the carrying amounts of recognised deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the Statement of Comprehensive Income.

## 2.5.1 FINANCIAL INSTRUMENTS - INITIAL RECOGNITION AND SUBSEQUENT MEASUREMENT

**(i) DATE OF RECOGNITION**

Purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace are recognised on the trade date i.e. the date that the Co-operative commits to purchase or sell the asset.

**(ii) INITIAL RECOGNITION OF FINANCIAL INSTRUMENTS**

The classification of financial instruments depends on the purpose for which the financial instruments were acquired and their characteristics.

**(iii) HELD TO MATURITY INSTRUMENTS**

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Co-operative has the positive intention and ability to hold to maturity. Investments that are intended to be held to-maturity are subsequently measured at amortised cost.

The cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount less impairment.

**(iv) AVAILABLE FOR SALE INSTRUMENTS**

Available for sale (AFS) financial assets include debt securities. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, AFS financial assets are subsequently measured at fair value with unrealized gains or losses recognized in other comprehensive income and credited in the AFS reserve until the investment is derecognized, at which time, the cumulative gain or loss is recognized in other operating income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the AFS reserve to the statement of profit or loss in finance costs. Interest earned whilst holding AFS financial assets is reported as interest income using the effective interest rate method.

**(v) LOANS AND ADVANCES TO MEMBERS**

Assets, such as loans and advances, are carried at amortised cost using the effective interest method. Gains and losses are recognised in the Statement of Comprehensive Income when the loans and advances are derecognised or impaired. These are included in current assets, except for those with maturities greater than 12 months after balance date, which are classified as non-current. Loan interest is calculated on the daily balance outstanding and is charged in arrears to a member's account on the last day of each month. All housing loans are secured by registered mortgages. The remaining loans are assessed on an individual basis.

## 2.5.2 DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES

**(i) FINANCIAL ASSETS**

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or

- the Co-operative has transferred its rights to receive cash flows from the asset or has assumed the obligation to pay the received cash flows in full without material delay to a third party under a 'pass through' arrangement; and

- either:
(a) the Co-operative has transferred substantially all the risks and rewards of the asset, or
(b) the Co-operative has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

**(ii) FINANCIAL LIABILITIES**

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired.

## 2.5.3 IMPAIRMENT OF FINANCIAL ASSETS

**(i) LOANS AND ADVANCES TO MEMBERS**

Loans and advances are measured at amortised cost after assessing required provisions for impairment. Loans are considered bad and written off when all avenues of legal and other action to recover the debt have been exhausted. All loans and advances are reviewed and graded according to the anticipated level of credit risk. The classification adopted is described as follows:

- Impaired loans are loans and advances where the recovery of all interest and principal is considered to be reasonably doubtful and hence provisions for impairment are recognised.

- Restructured Loans arise when the borrower is granted a concession due to continuing difficulties in meeting the original terms and revised terms are not comparable to new facilities. Loans with revised terms are included in past due or impaired loans.

- Assets acquired through the enforcement of security are assets acquired in full or partial settlement of a loan or similar facility through the enforcement of security arrangements.

- Past Due Loans are loans where payments of principal and/or interest are at least 90 days in arrears. Full recovery of both principal and interest is expected.

## 2.5.4 RECOGNITION OF INCOME AND EXPENSES

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Co-operative and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

**(i) INTEREST AND SIMILAR INCOME**

Revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

**(ii) FEE AND COMMISSION INCOME**

The Co-operative earns fee and commission income from a diverse range of services it provides to its Members. Fee income can be divided into the following two categories:

*Fee income earned from services that are provided over a certain period of time are accrued over that period*
Fees earned for the provision of services over that period.
Spread Fees earned for servicing and administrating securitised loans.

*Fee income from providing transaction services*
Fees arising from negotiating or participating in the negotiation of a transaction or with a third party are recognised on the completion of the underlying transaction.

**(iii) DIVIDEND INCOME**

Revenue is recognised when the Co-operative's right to receive the payment is established.

**(iv) RENTAL INCOME**

Rental income arising from investment and other properties is accounted for on a straight line basis over the lease terms on ongoing leases and is recorded in the Statement of Comprehensive Income in 'other operating income'.

## 2.5.5 CASH AND CASH EQUIVALENTS

Cash and cash equivalents in the Statement of Financial Position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

The amounts included in cash are held for the purpose of meeting short term cash deposits.

For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above and net outstanding bank overdrafts.

## 2.5.6 INVESTMENT PROPERTIES

The Co-operative holds certain properties as investments to earn rental income, for capital appreciation or both. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the Statement of Financial Position date. Gains or losses arising from changes in the fair values of investment properties are included in 'other operating income' in the year in which they arise. Fair value is determined by direct reference to recent market transactions on arm's length terms for land and buildings comparable in size and location to those held by the Co-operative, and to market based yields for comparable properties.

Investment properties are derecognised either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in Statement of Comprehensive Income in the year of retirement.

## 2.5.7 PROPERTY, EQUIPMENT & INTANGIBLE ASSETS

**(i) COST**

Equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Land and buildings are measured at fair value less any impairment losses recognised after the date of revaluation.

Under Australian Accounting Standards, items of computer software which are not integral to the computer hardware owned by the Co-operative are classified as intangible assets.

**(ii) IMPAIRMENT**

The carrying values of equipment are reviewed for impairment at each reporting date, with the recoverable amount being estimated when events or changes in circumstances indicate that the carrying amount may be impaired.

**(iii) REVALUATIONS**

Following initial recognition at cost, land and buildings are carried at a revalued amount which is the fair value. Fair value is determined by reference to market-based evidence, which is the amount for which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction as at the valuation date. Any revaluation increment is credited to the asset revaluation reserve included in the equity section of the Statement of Financial Position, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the Statement of Comprehensive Income.

Any revaluation decrease is recognised in the Statement of Comprehensive Income, except that a decrease offsetting a previous revaluation increase for the same asset is debited directly to the asset revaluation reserve to the extent of the credit balance existing in the revaluation reserve for that asset.

Additionally, any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amounts of the assets and the net amounts are restated to the revalued amounts of the assets.

Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings. Independent valuations are performed with sufficient regularity to ensure that the carrying amounts do not differ materially from the assets' fair values at the Statement of Financial Position date.

**(iv) DERECOGNITION AND DISPOSAL**

An item of property and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the Statement of Comprehensive Income in the year the asset is derecognised.

**(v) DEPRECIATION**

Depreciation is calculated on a straight-line basis over the estimated useful life of the specific assets as follows:

- Furniture and equipment - 6.7 years
- Computer hardware - 4 years

**(vi) AMORTISATION**

Computer software held as intangible assets is amortised over the expected useful life of the software on a straight-line basis over 3 years.

## 2.5.8 RECEIVABLES

Receivables are carried at amortised cost using the effective interest method. Gains and losses are recognised in the Statement of Comprehensive Income when the receivables are derecognised or impaired.

Expected future payments are discounted.

## 2.5.9 PAYABLES

Trade payables and other payables are carried at amortised cost and represent liabilities for goods and services provided to the Co-operative prior to the end of the financial year that are unpaid and arise when the Co-operative becomes obliged to make future payments in respect of these goods and services. The payables are not secured and are generally paid within 30 days of recognition.

**(i) PROVISIONS**

Provisions are recognised when the Co-operative has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Such provisions include:

**WAGES, SALARIES AND ANNUAL LEAVE**

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in provisions in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled.

**LONG SERVICE LEAVE**

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service.

Expected future payments are discounted using market yields at the reporting date on high quality corporate bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

## 2.5.10 CUSTOMER DEPOSITS AND SHORT-TERM BORROWINGS

**(i) MEMBER DEPOSITS**

Member deposits are classified under the categories of: at call and fixed term. The rate of interest offered on member deposits is dependent on the amount, the period invested/availability of funds and the nature of the deposit facility used. Member deposits are available for withdrawal subject to the advertised constraints of the facility.

For example, at call accounts can be accessed at any time, whereas no withdrawals can be made from a standard fixed term deposit without penalties.

**(ii) BORROWING COSTS**

Borrowing costs are recognised as an expense when incurred.

**(iii) MEMBERSHIPS**

Members must purchase shares to the value of $10 in the Co-operative to open their account. Once a member has purchased shares they may open multiple accounts. When a member cancels or resigns their Membership they are entitled to be refunded their initial $10 investment. No interest or dividends are payable on the shares issued because they are withdrawn on the closure of Membership. They are therefore recorded as a liability in the financial accounts as part of deposits at call, rather than as equity.

## 2.5.11 TAXES

**(i) CURRENT TAX**

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the Statement of Financial Position date.

**(ii) DEFERRED TAX**

Deferred income tax is provided on all temporary differences at the Statement of Financial Position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except when the deferred income tax liability arises from an asset or liability transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability settled, based on tax rates (and tax laws) that have been enacted or substantially enacted at the Statement of Financial Position date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in Statement of Comprehensive Income.

**(iii) GOODS AND SERVICES TAX (GST)**

Revenues, expenses and assets are recognised net of the amount of GST except:

- Where the GST incurred from the purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost acquisition of the asset or part of the expense item as applicable.

- Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

| | Notes | 2017 $'000 | 2016 $'000 |
|---|---|---|---|
| **3. INTEREST AND SIMILAR INCOME** | | | |
| Loans and advances to Members | | 4,552 | 4,590 |
| Deposits with other financial institutions | | 1,216 | 1,159 |
| Regulatory deposits | | 30 | 36 |
| | | 5,798 | 5 ,785 |
| **4. INTEREST AND SIMILAR EXPENSE** | | | |
| Member deposits | | 2,798 | 3,045 |
| Other | | 4 | 3 |
| | | 2,802 | 3,048 |
| **5. NET FEES AND COMMISSION INCOME** | | | |
| Other fees received | | 103 | 109 |
| | | 103 | 109 |
| **6. OTHER OPERATING INCOME** | | | |
| Dividend income | | 11 | 16 |
| Rental income | | 817 | 872 |
| Gain on sale of shares (Cuscal) | | 163 | - |
| Change in fair value of investment property | 13 | - | 125 |
| Other | | 129 | 125 |
| | | 1,120 | 1,138 |
| **7. CREDIT LOSS EXPENSE** | | | |
| Bad & doubtful debts to Members | | 53 | 2 |
| | | 53 | 2 |
| **8. OTHER OPERATING EXPENSES** | | | |
| Marketing, printing & postage | | 128 | 50 |
| Other tenancy expenses | | 380 | 414 |
| Corporate governance, audit & compliance | | 359 | 233 |
| Subsidised member transaction expenses | | 174 | 167 |
| Data & communications | | 553 | 479 |
| Other | | 336 | 377 |
| | | 1,930 | 1,720 |

## 9. INCOME TAX

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| (a) Income tax expense/(benefit) | | |
| The major components of income tax expense are: | | |
| *Statement of Comprehensive Income* | | |
| *Current Income Tax* | | |
| Current Income tax charge | (6) | 16 |
| Adjustments in respect of current income tax of previous years | 32 | 2 |
| *Deferred Income Tax* | | |
| Relating to origination and reversal of temporary differences | (6) | 124 |
| Adjustment to income tax expense for recognition of deferred tax | - | - |
| Income tax expense/(benefit) reported in the Statement of Comprehensive Income | 20 | 142 |
| (b) Amounts charged or credited directly to equity | | |
| *Deferred income tax related to items charged or credited directly to equity* | | |
| Unrealised movement on land and buildings | - | 60 |
| Unrealised movement on available for sale investments | 155 | (26) |
| Income tax expense reported in equity | 155 | 34 |
| (c) Reconciliation between aggregate tax expense recognised in the Statement of Comprehensive Income and tax expense calculated per the statutory income tax rate. | | |
| A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the Company's applicable income tax rate is as follows: | | |
| Accounting profit before income tax | 102 | 464 |
| At the Company's statutory income tax rate of 30% (2016:30%) | 30 | 139 |
| Income not assessable for income tax purposes | 4 | 6 |
| Adjustment in respect of current income tax of previous year | (9) | 1 |
| Franking credit rebate | (5) | (4) |
| Aggregate income tax expense | 20 | 142 |
| (d) Recognised deferred tax assets and liabilities | | |
| Tax expense in Statement of Comprehensive Income | 20 | 142 |
| Amounts recognised in the Statement of Financial Position: | | |
| Deferred tax asset | 165 | 123 |
| Deferred tax liability | (1,009) | (872) |
| Deferred Net Tax Liabilities | (844) | (749) |

## 9. INCOME TAX
(Continued)

| | 2017 | 2016 |
|---|---|---|
| Deferred income tax | $'000 | $'000 |
| Deferred income tax at 30 June relates to the following: | | |
| *Deferred tax liabilities* | | |
| Rent receivable | (10) | (7) |
| Depreciable assets | (136) | (134) |
| Investment properties | (622) | (619) |
| Land and buildings | (112) | (112) |
| Financial Investments – available for sale | (129) | - |
| Deferred tax liabilities | (1,009) | (872) |
| | | |
| *Deferred tax assets* | | |
| Allowance for doubtful debts | 16 | 1 |
| Rent received in advance | 5 | - |
| Provisions and accruals | 126 | 116 |
| Merger Costs | 18 | - |
| Land and Buildings | - | 6 |
| Deferred tax assets | 165 | 123 |

(e) Correction of an error

In 2017, the Co-operative conducted a review of the tax base amounts of fixed assets and investment properties. During this review, the Co-operative identified an error relating to the cost base of buildings used in the deferred tax calculation in 2016 and previous years. As a consequence, the deferred tax liability was overstated and retained earnings understated by $197,000 in the 2016 financial statements. The error has been corrected by restating the following financial statement line items for the period/periods: Deferred net tax liabilities (decrease of $197,000), Retained earnings as at 1 July 2015 (increase of $197,000) and Retained earnings as at 30 June 2016 (increase of $197,000). The change did not have an impact on comprehensive income for the year ended 30 June 2017 or the Co-operative's operating, investing and financing cash flows.

## 10. CASH AND CASH EQUIVALENTS

| | | |
|---|---|---|
| Cash on hand | 309 | 213 |
| Current account with banks | 1,570 | 1,631 |
| Overnight deposits with banks | 11,365 | 6,450 |
| | 13,244 | 8,294 |

## 11.1. FINANCIAL INVESTMENTS – HELD TO MATURITY

| | | |
|---|---|---|
| Term and negotiable certificates of deposits with banks (fully redeemable), not Longer than 3 months | 8,388 | 6,770 |
| Term and negotiable certificates of deposits with banks (fully redeemable), Longer than 3 months and not Longer than 12 months | 7,144 | 4,824 |
| | 15,532 | 11,594 |

## 11.2. FINANCIAL INVESTMENTS – AVAILABLE FOR SALE

| | | |
|---|---|---|
| Fixed Interest Bonds and Floating Rate Notes (fully redeemable), Longer than 12 months | 26,190 | 22,436 |
| Shares | 372 | 189 |
| | 26,562 | 22,625 |

## 12. LOANS AND ADVANCES TO MEMBERS

| | | |
|---|---|---|
| Overdraft and revolving credit | 3,828 | 2,553 |
| Term loans | 99,532 | 96,141 |
| Gross loans and advances | 103,360 | 98,694 |
| Less: Allowance for impairment losses | (54) | (3) |
| | 103,306 | 98,691 |

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| (a) BY MATURITY | | |
| Overdrafts | 3,829 | 2,553 |
| Not longer than 3 months | 951 | 65 |
| Longer than 3 months and less than 12 months | 1,247 | 2,589 |
| Longer than 12 months and less than 5 years | 7,993 | 3,625 |
| Longer than 5 years | 89,340 | 89,862 |
| | 103,360 | 98,694 |
| (b) BY PRODUCT TYPE | | |
| Residential mortgages | 99,651 | 93,733 |
| Consumer lending | 2,058 | 1,803 |
| Corporate & small business lending | 1,651 | 3,158 |
| | 103,360 | 98,694 |
| (c) BY CONCENTRATION* | | |
| Loans in Victoria | 79,158 | 76,338 |
| Loans in South Australia | 17,796 | 17,331 |
| In other states | 6,406 | 5,025 |
| | 103,360 | 98,694 |
| (d) BY SECURITY | | |
| Secured by mortgage | 100,607 | 97,500 |
| Secured by Other | 2,235 | 741 |
| Unsecured | 518 | 453 |
| | 103,360 | 98,694 |
| IMPAIRMENT ALLOWANCE FOR LOANS AND ADVANCES TO MEMBERS<br>A reconciliation of the allowance for impairment losses for loans and advances is as follows: | | |
| (I) Total Provision | 54 | 3 |
| (II) Movement in total provision | | |
| Balance at the beginning of the year | 3 | 91 |
| Charge for the year (Note 7) | 53 | 2 |
| Amounts written off already provided for | (2) | (90) |
| Balance at the end of the year | 54 | 3 |

* At 30 June 2017 there was 1 loan totaling $2.3m which exceeded 10% of the Co-operatives capital base (2016: 16 loans totaling $7.8m)

## 12. LOANS AND ADVANCES TO MEMBERS

(Continued)

| | | |
|---|---|---|
| (III) The loans provision consists of: | | |
| Collective provision | 28 | 3 |
| Specific provision | 26 | - |
| | 54 | 3 |
| (IV) Impaired loans written off: | | |
| Charge/(recovery) | 2 | 90 |
| Total impaired loans written off | 2 | 90 |

| | 2017 Past Due | 2017 Impaired | 2017 Collateral Held | 2016 Past Due | 2016 Impaired | 2016 Collateral Held |
|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| HOUSING LOANS | | | | | | |
| 30 days and less than 60 days | 653 | - | 1 ,045 | 775 | - | 4 ,490 |
| 60 days and less than 90 days | 780 | - | 2 ,015 | 869 | - | 1 ,636 |
| 90 days and less than 182 days | 1,526 | - | 5,195 | 531 | - | 2 ,725 |
| 182 days and less than 273 days | - | - | - | - | - | - |
| 273 days and less than 365 days | - | - | - | - | - | - |
| 365 days and over | 8 | - | 1,250 | - | - | - |
| | 2,967 | - | 9 ,505 | 2,175 | - | 8 ,851 |
| PERSONAL AND COMMERCIAL LOANS | | | | | | |
| 30 days and less than 60 days | 12 | | - | 2 | - | - |
| 60 days and less than 90 days | 12 | - | - | 18 | - | - |
| 90 days and less than 182 days | - | 56 | - | - | - | - |
| 182 days and less than 273 days | - | 10 | - | 1 | - | - |
| 273 days and less than 365 days | - | - | - | - | - | - |
| 365 days and over | - | - | - | - | - | - |
| | 24 | 66 | - | 21 | - | - |
| OVERDRAFTS | | | | | | |
| less than 14 days | 41 | - | - | 22 | - | - |
| 14 days and less than 90 days | - | 3 | - | - | 5 | - |
| 90 days and less than 182 days | - | - | - | - | - | - |
| 182 days and over | - | - | - | - | - | - |
| | 41 | 3 | - | 22 | 5 | - |
| Total Loans Past Due or impaired | 3 ,032 | 69 | 9,505 | 2,218 | 5 | 8 ,851 |

*Key Assumptions in determining the provision for impairment:*

In the course of the annual report, the Co-operative has determined the likely impairment loss on loans which have not maintained the loan repayments in accordance with the loan contract, or where there is other objective evidence of potential impairment such as industrial restructuring, job losses or economic circumstances.

The Loans and advances are determined to be past due or impaired by the amount of days that they are overdue. Per APRA provisioning a housing loan is determined to be past due at 30 days or greater. Personal and commercial loans are determined to be past due between 30 days and less than 90 days, and impaired after 90 days. Overdrafts are past due at one day to less than 14 days overdue and impaired if greater than 14 days overdue.

The loans and advances past due or impaired are secured by collateral, as described in Note 24.2, that exceeds the value of loans and advances outstanding.

## 13. INVESTMENT PROPERTIES

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| At 1 July | 2,974 | 2,849 |
| Net change from fair value adjustment | - | 125 |
| | 2,974 | 2,974 |

## 14.1 PROPERTY AND EQUIPMENT

| | Land & Buildings | Computer Hardware | Other Furniture & Equipment | Total |
|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 |
| Cost or Fair value: | | | | |
| At 1 July 2016 | 8,551 | 167 | 1,275 | 9,993 |
| Additions | - | 23 | 89 | 112 |
| Disposals | - | - | - | - |
| Net change from revaluation | - | - | - | - |
| At 30 June 2017 | 8,551 | 190 | 1,364 | 10,105 |
| Accumulated depreciation: | | | | |
| At 1 July 2016 | - | 116 | 1,185 | 1,301 |
| Disposals | - | - | - | - |
| Depreciation charge for the year | - | 40 | 27 | 67 |
| At 30 June 2017 | - | 156 | 1,212 | 1,368 |
| At 30 June 2017 | | | | |
| Cost or fair value | 8,551 | 190 | 1,364 | 10,105 |
| Less: Accumulated depreciation | - | 156 | 1,212 | 1,368 |
| Net carrying amount | 8,551 | 34 | 152 | 8,737 |

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| If land and buildings were measured using the cost model the carrying amounts would be: | 3,894 | 3,894 |

## 14.1 PROPERTY AND EQUIPMENT

(Continued)

| | Land & Buildings | Computer Hardware | Other Furniture & Equipment | Total |
|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 |
| Cost or Fair value: | | | | |
| At 1 July 2015 | 8,351 | 153 | 1,240 | 9,744 |
| Additions | - | 25 | 35 | 60 |
| Disposals | - | (11) | - | (11) |
| Net change from revaluation | 200 | - | - | 200 |
| At 30 June 2016 | 8,551 | 167 | 1,275 | 9,993 |
| Accumulated depreciation: | | | | |
| At 1 July 2015 | - | 94 | 1,152 | 1,246 |
| Disposals | - | (9) | - | (9) |
| Depreciation charge for the year | - | 31 | 33 | 64 |
| At 30 June 2016 | - | 116 | 1,185 | 1,301 |
| At 30 June 2016 | | | | |
| Cost or fair value | 8,551 | 167 | 1,275 | 9,993 |
| Less: Accumulated depreciation | - | 116 | 1,185 | 1,301 |
| Net carrying amount | 8,551 | 51 | 90 | 8,692 |

## 14.2 INTANGIBLES

| | 2017 | 2016 |
|---|---|---|
| | $'000 | $'000 |
| a. Intangible Assets Comprise: | | |
| Computer Software | 452 | 330 |
| Less: Amortisation charge | (271) | (234) |
| | 181 | 96 |
| b. Movement in the intangible asset balances during the year | | |
| was: Opening balance | 96 | 92 |
| Additions | 123 | 32 |
| Less: Write-downs | - | (1) |
| Less: Amortisation charge | (38) | (27) |
| | 181 | 96 |

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| **15. OTHER FINANCIAL INVESTMENTS** | | |
| COBA Shares – Shared Services | 20 | 20 |
| | 20 | 20 |

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| **16. OTHER ASSETS** | | |
| Accrued interest receivable | 269 | 203 |
| Prepayments | 108 | 115 |
| Other receivables | 26 | 13 |
| | 403 | 331 |

The maximum exposure to credit risk is the fair value of the receivables. Collateral is not held as security, nor is it policy to transfer (on-sell) receivables to special purpose entities.

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| **17. MEMBER DEPOSITS** | | |
| Current accounts | 58,988 | 51,840 |
| Term deposits | 87,156 | 79,769 |
| | 146,144 | 131,609 |
| Deposits in Victoria | 114,605 | 97,556 |
| Deposits in South Australia | 19,415 | 24,059 |
| In other states | 12,124 | 9,994 |
| | 146,144 | 131,609 |

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| **18. OTHER LIABILITIES** | | |
| Interest payable on deposits | 631 | 567 |
| Rent received in advance | 18 | 21 |
| Trade creditors and accruals | 862 | 539 |
| | 1,511 | 1,127 |

## 19. PROVISIONS - EMPLOYEES

| | 2017<br>$'000 | 2016<br>$'000 |
|---|---|---|
| Current provisions for employee entitlements | | |
| Long service leave | 63 | 91 |
| Annual leave | 159 | 154 |
| | 222 | 245 |
| NON-CURRENT PROVISION FOR EMPLOYEE ENTITLEMENTS | | |
| Long service leave | 129 | 71 |
| | 129 | 71 |

| A reconciliation of the provisions is as follows | Annual Leave | Long Service Leave | Total |
|---|---|---|---|
| As at 1 July 16 | 154 | 162 | 316 |
| Payments Made | (102) | (6) | (108) |
| Additional Provisions | 107 | 36 | 143 |
| As at 30 June 17 | 159 | 192 | 351 |
| | | | |
| As at 1 July 15 | 143 | 153 | 296 |
| Payments Made | (80) | (8) | (88) |
| Additional Provisions | 91 | 17 | 108 |
| As at 30 June 16 | 154 | 162 | 316 |

## 20. RETAINED EARNINGS AND RESERVES

| | Retained Earnings $'000 | Credit Loss Reserve $'000 | AFS Reserve $'000 | Business Combination Reserve $'000 | Asset Revaluation Reserve $'000 | Total Reserves $'000 |
|---|---|---|---|---|---|---|
| As at 1 July 2016 | 11,070 | 466 | (61) | 2,303 | 5,708 | 8,416 |
| Decrease in statutory amount set aside for potential losses on loans & advances | (115) | 115 | - | - | - | 115 |
| Net change from merger (Latvian CU) | - | 39 | - | 2,137 | - | 2,176 |
| Net profit attribute to Members | 81 | - | - | - | - | - |
| Net change from revaluation of AFS | - | - | 363 | - | - | 363 |
| Net change in DTA and DTL | 77 | - | - | - | - | - |
| As at 30 June 2017 | 11,113 | 620 | 302 | 4,440 | 5,708 | 11,070 |
| | | | | | | |
| As at 1 July 2015 | 10,725 | 489 | - | 2,303 | 5,568 | 8,360 |
| Increase in statutory amount set aside for potential losses on loans & advances | 23 | (23) | - | | - | (23) |
| Net change from revaluation of property | - | - | - | - | 140 | 140 |
| Net profit attribute to Members | 322 | - | - | - | - | - |
| Net change from revaluation of AFS | - | - | (61) | | | (61) |
| As at 30 June 2016 | 11,070 | 466 | (61) | 2,303 | 5,708 | 8,416 |

**CREDIT LOSS RESERVE**

The credit loss reserve is used to record the Co-operative's required provisioning (under the Standard) for setting aside an amount based on risk weighted assets and delinquencies as provision for possible bad debt write off. It represents an appropriation of retained earnings as further capital held against credit losses.

**AVAILABLE FOR SALE AFS RESERVE**

The AFS reserve is used to record increments and decrements in the fair value of available for sale investments, i.e. bonds.

**BUSINESS COMBINATION RESERVE**

The business combination reserve is used to record increments and decrements in equity as a result of mergers with other businesses.

**ASSET REVALUATION RESERVE**

The asset revaluation reserve is used to record increments and decrements in the fair value of land and buildings to the extent that they offset one another.

| | 2017 $'000 | 2016 $'000 |
|---|---|---|

## 21. ADDITIONAL CASH FLOW INFORMATION

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| **CASH AND CASH EQUIVALENTS** | | |
| Cash on hand | 309 | 213 |
| Current account with Bank | 1,570 | 1,631 |
| Overnight deposits with Bank | 11,365 | 6,450 |
| | 13,244 | 8,294 |
| **CHANGE IN OPERATING ASSETS** | | |
| Net change in interest receivable | 66 | 66 |
| Net change in debtors | 13 | 4 |
| Net change in prepayments | (7) | (85) |
| Net change in future tax receivable | (42) | 29 |
| | 30 | 14 |
| **CHANGE IN OPERATING LIABILITIES** | | |
| Net change in interest payable | 64 | (187) |
| Net change in interest payable | (3) | (5) |
| Net change in creditors and accruals | (323) | (28) |
| Net change in future tax payable | (121) | (127) |
| Net change in provisions | 36 | 20 |
| | (347) | (327) |
| **NON-CASH ITEMS INCLUDED IN PROFIT BEFORE TAX** | | |
| Depreciation of property and equipment | 105 | 91 |
| Losses on disposal of property and equipment | - | 2 |
| Net impairment losses on financial assets | 53 | 2 |
| Revaluation of investment property | - | (125) |
| | 158 | (30) |

## 22. COMMUNITY GRANTS AND SPONSORSHIP

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| Community Sponsorship | 12 | 26 |
| School Support | 13 | 8 |
| Church Praznyk | 8 | 9 |
| | 33 | 43 |

Dnister Ukrainian Credit Co-operative Ltd makes payments to the Ukrainian Community via grants and sponsorship. In addition, Dnister Staff provide special support services to community organisations free of charge.

The amount allocated is approved by the Board of Directors.

## 23. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

| | Carrying Value | Fair Value |
|---|---|---|
| | $'000 | $'000 |
| **ASSETS 2017** | | |
| Financial Assets | | |
| Cash & balances with bank | 13,244 | 13,244 |
| Financial investments - Held to maturity | 15,532 | 15,530 |
| Financial investments - Available for sale | 26,562 | 26,562 |
| Loans and advances to Members | 103,306 | 102,769 |
| Other investments | 392 | 392 |
| Accrued interest receivable | 269 | 269 |
| Other receivables and prepayments | 134 | 134 |
| Total 2017 | 159,439 | 158,900 |
| **LIABILITIES 2017** | | |
| Financial Liabilities | | |
| Member deposits | 146,144 | 146,048 |
| Total 2017 | 146,144 | 146,048 |
| **ASSETS 2016** | | |
| Financial Assets | | |
| Cash & balances with bank | 8,294 | 8,294 |
| Financial investments - Held to maturity | 11,594 | 11,602 |
| Financial investments – Available for sale | 22,625 | 22,625 |
| Loans and advances to Members | 98,691 | 98,765 |
| Other investments | 20 | 20 |
| Accrued interest receivable | 203 | 203 |
| Other receivables | 128 | 128 |
| Total 2016 | 141,555 | 141,637 |
| **LIABILITIES 2016** | | |
| Financial Liabilities | | |
| Member deposits | 131,609 | 131,690 |
| Total 2016 | 131,609 | 131,690 |

## 23. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Continued...

### FAIR VALUE HIERARCHY

All Financial Instruments for which fair value is recognised or disclosed are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 - Quoted market prices in an active market (that is unadjusted) for identical assets or liabilities
Level 2 - Valuation techniques (for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable)
Level 3 - Valuation techniques (for which the lowest level input that is significant to the fair value measurement is unobservable)

For financial instruments that are recognised at fair value on a recurring basis, the Co-operative determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

As at 30 June 2017, the Group held the following classes of financial instruments measured at (AASB13) fair value:

| | 30 June 17 | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| **Financial Assets measured at fair value -2017** | | | | |
| Financial investments – held to maturity | 15,530 | - | - | 15,530 |
| Financial investments – available for sale | 26,562 | 26,190 | - | 372 |
| Loans and advances to Members | 102,769 | - | - | 102,769 |
| **Financial Liabilities measured at fair value -2017** | | | | |
| Member deposits | 146,048 | - | - | 146,048 |

| | 30 June 16 | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| **Financial Assets measured at fair value -2016** | | | | |
| Financial investments – held to maturity | 11,602 | - | - | 11,602 |
| Financial investments – available for sale | 22,436 | 22,436 | - | - |
| Loans and advances to Members | 98,765 | - | - | 98,765 |
| **Financial Liabilities measured at fair value -2016** | | | | |
| Member deposits | 131,690 | - | - | 131,690 |

## 23. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Continued...

The net fair value estimates were determined by the following methodologies and assumptions:

**CASH AND LIQUID ASSETS**

The carrying values of cash and liquid assets approximate their net fair value as they are short term in nature or are receivable on demand.

**DEPOSITS WITH FINANCIAL INSTITUTIONS**

The carrying values of deposits with financial institutions are categorised within the fair value hierarchy based on net present values.

**LOANS AND ADVANCES**

The carrying values of loans and advances are net of the total provision for doubtful debts. Interest rates on loans both fixed and variable equate to comparable products in the market place. The carrying values of loans and advances to Members are categorised within the fair value hierarchy based on net present values.

**MEMBER DEPOSITS**

The carrying values of member deposits are categorised within the fair value hierarchy based on net present values.

**OTHER INVESTMENTS**

The carrying amount of other investments is at fair value as these shares are available for sale.

**ACCRUED INTEREST RECEIVABLE**

The net fair value of accrued interest receivables represents the carrying amount. This represents the interest that has accrued to date on deposits with financial institutions.

**OTHER RECEIVABLES**

The net fair value of other receivables represents the carrying amount. This mainly represented rent owed to the Co-operative from the investment properties.

## 24. BUSINESS COMBINATION

### ACQUISITION OF LATVIAN AUSTRALIAN CREDIT CO-OPERATIVE SOCIETY LIMITED

Mergers with other mutual entities are accounted for by recognizing the identifiable assets and liabilities of the transferring entity on the statement of financial position at their value at the date of merger. The excess of the fair value of assets taken up over liabilities assumed is taken directly to equity as a reserve.

On 1 Sep 2016, Dnister Ukrainian Credit Co-operative Limited acquired 100% of Latvian Australian Credit Co-operative Society Limited, an unlisted company specializing in serving the Australian Latvian community banking needs.

There was no payment made and the merge compromised an issue of shares. Dnister issued one $10 Dnister share to each Latvian member in return for their $10 Latvian share. Shares in neither company are tradeable and are held as part of the membership.

The fair value of net identifiable assets has been accounted for in the business combination reserve in equity.

The fair value of the identifiable assets and liabilities of Latvian Australian Credit Co-operative Society Limited as at the date of acquisition were:

| | Recognised on Acquisition | Carrying Value |
|---|---|---|
| | $'000 | $'000 |
| **ASSETS** | | |
| Property Plant and Equipment | 22 | 22 |
| Cash and cash equivalents | 778 | 778 |
| Receivables due from other financial institutions | 65 | 65 |
| Loans and advances | 5,113 | 5,113 |
| Other investments | 8,869 | 8.869 |
| Trade | 23 | 23 |
| Total Assets | 14,870 | 14,870 |
| **LIABILITIES** | | |
| Member Deposits | 12,504 | 12,504 |
| Trade Payables | 190 | 190 |
| Provisions - employees | - | - |
| Deferred net tax liabilities | - | - |
| Total Liabilities | 12,694 | 12,694 |
| Fair value of identifiable net assets | 2,176 | |
| Equity | 2,176 | |

The cash inflow on acquisition is as follows:

| | | |
|---|---|---|
| **Net cash acquired with the subsidiary** | 778 | |

## 25.RISK MANAGEMENT

### 25.1 INTRODUCTION

Risk is inherent in the Co-operative's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Co-operative's continuing profitability and each individual within the Co-operative is accountable for the risk exposure relating to his or her responsibilities. The Co-operative is exposed to credit risk, liquidity risk and market risk. It is also subject to operating risks.

**RISK MANAGEMENT STRUCTURE**

The Board of Directors is ultimately responsible for identifying and controlling risks; however there is a Risk Committee. This Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. It is responsible for the fundamental risk issues and manages and monitors relevant risk decisions.

**INTERNAL AUDIT**

Risk management processes throughout the Co-operative are audited annually by the internal audit function, which examines both the adequacy of procedures and the Co-operative's compliance with the procedures. Internal Audit discusses the results of all assessments with Management, and reports its findings and recommendations to the Audit Committee.

### 25.2 CREDIT RISK

Credit risk is the risk that the Co-operative will incur a loss because a counterparty failed to discharge their obligations. The Co-operative manages and controls risk by setting limits on the amount it is willing to accept for debtors and loan categories, and by monitoring exposures to such limits.

With respect to credit risk arising from other financial assets of the Co-operative, the Co-operative's exposure to credit risk arises from default of the counterparty, with the current exposure equal to the fair value of these instruments as disclosed in the Statement of Financial Position. Future movements in fair value would increase or reduce that exposure.

Credit ratings are those published by Standards and Poor’s.

## 25. RISK MANAGEMENT

Continued...

| The table below shows the credit quality by class of asset | | | | |
|---|---|---|---|---|
| **ASSETS** | 2017 $'000 | 2017 $'000 | 2017 $'000 | 2017 $'000 |
| Financial Assets | Total | High Grade | Other Grade | Past Due or Impaired |
| Loans and advances | 103,306 | 100,206 | - | 3,100 |

| | Total | AAA to A- | B to BBB+ | Other* |
|---|---|---|---|---|
| Cash & balances with bank | 13,244 | 11,365 | - | 1,879 |
| Financial investments - held to maturity | 15,532 | 13,784 | - | 1,748 |
| Financial investments - available for sale | 26,562 | 26,190 | - | 372 |
| Other investments | 20 | - | - | 20 |
| Accrued interest receivable | 269 | 264 | - | 5 |
| Other receivables and prepayments | 134 | - | - | 134 |
| Total | 55,761 | 51,603 | - | 4,158 |

| | | | | |
|---|---|---|---|---|
| **ASSETS** | 2016 $'000 | 2016 $'000 | 2016 $'000 | 2016 $'000 |
| Financial Assets | Total | High Grade | Other Grade | Past Due or Impaired |
| Loans and advances | 98,691 | 96,468 | - | 2,223 |

| | Total | AAA to A- | B to BBB+ | Other* |
|---|---|---|---|---|
| Cash & balances with bank | 8,294 | 6,450 | - | 1,844 |
| Financial investments - held to maturity | 11,594 | 9,946 | - | 1,648 |
| Financial investments – available for sale | 22,436 | 22,436 | - | - |
| Other investments | 209 | 76 | - | 133 |
| Accrued interest receivable | 203 | 198 | - | 5 |
| Other receivables and prepayments | 128 | - | - | 128 |
| Total | 42,864 | 39,106 | - | 3,758 |

The Loans and advances are determined to be past due or impaired by the amount of days that they are overdue. As per APRA provisioning, a Housing Loan is determined to be past due at 30 days or greater and impaired after 90 days. Personal and commercial loans are determined to be past due between 30 days and less than 90 days, and impaired after 90 days. Overdrafts are past due at one day to less than 14 days overdue and impaired if greater than 14 days overdue.

Financial assets that are neither past due or impaired are classified between those assets that are high grade and not high grade (other grade). To define what is a high grade financial asset, Dnister has referred to the prudential standards issued by the Australian Prudential Regulation Authority (APRA) in particular APS 112 which categorises the risk likelihood of default. APS 112 applies risk-weight percentages to indicate the quality of assets. A risk-weight of 50% or less indicates higher quality assets and this has been applied to define high grade assets for the table provided.

*Other consists of assets or liabilities which have not been rated or are of a non-rated nature.

All interest bearing securities were issued by Australian entities.

## 25. RISK MANAGEMENT

Continued...

### COLLATERAL AND OTHER CREDIT ENHANCEMENTS

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- for commercial lending, charges over real estate properties, inventory and trade receivables.
- for mortgage lending, mortgages over residential properties.

Management monitors the market value of collateral, requests collateral in accordance with the underlying agreement and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

It is the Co-operative's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Co-operative does not occupy repossessed properties for business use.

### IMPAIRMENT ASSESSMENT

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than the specified period or there are any known difficulties in the cash flows of Members, credit rating downgrades, or infringement of the original terms of the contract.

### LOANS PAYABLE

During the current and prior year, there were no material defaults or breaches on any of the loans.

## 25.3 LIQUIDITY RISK AND FUNDING MANAGEMENT

Liquidity risk is the risk that the Co-operative will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, Management has arranged diversified funding sources. In addition to its core deposit base, the Co-operative manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Co-operative has a $350,000 overdraft facility which allows for the day to day fluctuations in a settlement account with Indue Ltd. The overdraft allows the settlement account to be overdrawn for one or two business days in the event that the withdrawals are greater than the settlement account balance. The Co-operative will then deposit within one or two business days the required funds to return the account to credit.

The Co-operative maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. In addition, the Co-operative is required by the Australian Prudential Regulatory Authority to hold a minimum level of high quality liquid assets at any given time. The liquidity position is assessed giving due consideration to stress factors relating to both the market in general and specifically to the Co-operative. Net liquid assets consists of cash, short term bank deposits or negotiable certificate of deposits available for immediate sale.

The liquidity ratio during the year was as follows:

| | 2017<br>% | 2016<br>% |
|---|---|---|
| 30 June | 27.4 | 27.3 |
| Highest for period | 29.2 | 28.9 |
| Lowest for period | 25.7 | 23.9 |

## 25. RISK MANAGEMENT

Continued...

### 25.3a MATURITY PROFILE OF FINANCIAL LIABILITIES

The tables below summarise the maturity profile of Dnister`s financial liabilities at balance date based on contractual undiscounted repayment obligations. Dnister does not expect the majority of Members to request repayment on the earliest date that Dnister could be required to pay and the tables do not reflect the expected cash flows indicated by Dnister`s deposit retention history.

| | Less than 30 days | Less than 3 months | 3-12 months | Subtotal less than 12 months | 1 -5 years | Over 5 years | Subtotal over 12 months | Total |
|---|---|---|---|---|---|---|---|---|
| **2017** | | | | | | | | |
| Liabilities | | | | | | | | |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| Member deposits | 69,893 | 30,455 | 44,843 | 145,191 | 953 | - | 953 | 146,144 |
| Trade and other payables | 735 | - | 776 | 1,511 | - | - | - | 1,511 |
| Total | 70,628 | 30,455 | 45,619 | 146,702 | 953 | - | 953 | 147,655 |
| **2016** | | | | | | | | |
| Liabilities | | | | | | | | |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| Member deposits | 67,204 | 38,128 | 26,114 | 131,446 | 163 | - | 163 | 131,609 |
| Trade and other payables | 581 | - | 567 | 1,148 | - | - | - | 1,148 |
| Total | 67,785 | 38,128 | 26,681 | 132,594 | 163 | - | 163 | 132,757 |

## 25. RISK MANAGEMENT

Continued...

### 25.3b MATURITY PROFILE OF COMMITMENTS

The table below shows the contractual expiry of the maturity of Dnister`s credit commitments and lease expenditure commitments. Dnister expects that not all of the commitments will be drawn before the expiry of the commitments. There were no lease expenditure commitments at year end.

| | Within 12 months | More than 1 year | Total |
|---|---|---|---|
| **2017** | | | |
| Liabilities | | | |
| | $'000 | $'000 | $'000 |
| Approved but undrawn loans | 1,230 | - | 1,230 |
| Undrawn line of credit | 3,529 | - | 3,529 |
| Total | 4,759 | - | 4,759 |
| **2016** | | | |
| Liabilities | | | |
| | $'000 | $'000 | $'000 |
| Approved but undrawn loans | 1,000 | - | 1,000 |
| Undrawn line of credit | 3,208 | - | 3,208 |
| Total | 4,208 | - | 4,208 |

### 25.4 MARKET RISK

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates. The Board has set limits on the level of market risk that may be accepted. The Co-operative has significant interest rate risk, but not excessive given the nature of our business. The level of interest rate risk is managed through maturity repricing analysis and limits the exposure based on a 2% interest rate movement, which is set by the Board and reported monthly to the Board. The Co-operative only deals in Australian Dollars and therefore is not exposed to currency risk. The Co-operative does not hold any investments which are subject to equity movement and therefore is not exposed to equity risk.

## 25. RISK MANAGEMENT

Continued...

### INTEREST RATE RISK

Interest rate risk is the risk that fair value or future cash flow of the Co-operative's financial instruments will fluctuate because of changes in market interest rate.

| | Floating Interest Rate | Fixed interest maturing in | | Non-interest bearing | Total carrying amount as per Statement of Financial Position |
|---|---|---|---|---|---|
| | $'000 2017 | $'000 1 year or less | $'000 +1 to 5 years | $'000 2017 | $'000 2017 |
| **FINANCIAL ASSETS** | | | | | |
| Cash & balances with bank | 12,935 | - | - | - | 12,935 |
| Financial investments - held to maturity | - | 15,532 | - | 309 | 15,841 |
| Financial investments - available for sale | 24,138 | - | 2,052 | 372 | 26,562 |
| Shares (COBA) | - | - | - | 20 | 20 |
| Other receivables | - | - | - | 403 | 403 |
| Loans and advances to Members | 93,115 | 2,198 | 7,993 | - | 103,306 |
| **FINANCIAL LIABILITIES** | | | | | |
| Member deposits | 58,988 | 86,202 | 954 | - | 146,144 |
| Wholesale borrowings | - | - | - | - | - |

| | Floating Interest Rate | Fixed interest maturing in | | Non-interest bearing | Total carrying amount as per Statement of Financial Position |
|---|---|---|---|---|---|
| | $'000 2016 | $'000 1 year or less | $'000 +1 to 5 years | $'000 2016 | $'000 2016 |
| **FINANCIAL ASSETS** | | | | | |
| Cash & balances with bank | 8,080 | - | - | - | 8,080 |
| Financial investments - held to maturity | - | 11,594 | - | - | 11,594 |
| Financial investments – available for sale | - | 1,501 | 20,935 | - | 22,436 |
| Shares (Cuscal and Indue) | - | - | - | 209 | 209 |
| Other receivables | - | - | - | 331 | 331 |
| Loans and advances to Members | 92,411 | 2,655 | 3,625 | - | 98,691 |
| **FINANCIAL LIABILITIES** | | | | | |
| Member deposits | 51,840 | 79,769 | - | - | 131,609 |
| Wholesale borrowings | - | - | - | - | - |

## 25. RISK MANAGEMENT

Continued...

### INTEREST RATE SENSITIVITY

The following tables demonstrate the sensitivity to a reasonable possible change in interest rates: to post tax profit and equity.

| | | Post Tax Profit Higher / (Lower) | |
|---|---|---|---|
| 2017 | 2016 | 2017 | 2016 |
| | | $'000 | $'000 |
| +0.50% (50 Basis Points) | +0.25% (25 Basis Points) | 121 | 39 |
| -0.25% (25 Basis Points) | -0.50% (50 Basis Points) | (60) | (78) |

| | | Equity Higher / (Lower) | |
|---|---|---|---|
| 2017 | 2016 | 2017 | 2016 |
| | | $'000 | $'000 |
| +0.50% (50 Basis Points) | +0.25% (25 Basis Points) | 84 | 39 |
| -0.25% (25 Basis Points) | -0.50% (50 Basis Points) | (42) | (78) |

The above interest rate risk sensitivity is unrepresentative of the risks inherent in the financial assets and financial liabilities, as the sensitivity analysis does not reflect the maturing of fixed interest financial assets and financial liabilities within the next 12 months.

## 26. CAPITAL

The Co-operative maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Co-operative's capital is monitored using, among other measures, the rules and ratios established by the Australian Prudential Regulatory Authority (APRA). The capital ratio of 22.4% as at 30 June 2017 exceeds the APRA minimum requirement. Should capital fall to 17% a 3 year forecast is performed to ensure that the capital is monitored closely and starts to trend upwards. The capital ratio is reported to the Board at the monthly Board Meetings and more frequently during periods of volatility or when the capital ratio falls below 17%. During the past the year, the Co-operative has complied in full with all its internally and externally imposed capital requirements.

The capital ratio is derived by dividing the capital base by the risk weighted assets. The Co-operative adheres to the regulations set down by APRA in regard to which capital items can or cannot be included and also the different risk weightings put on the various assets. These risk weightings are set by APRA and are based on the risk associated with each different asset class.

## 26. CAPITAL MANAGEMENT

Continued...

### CAPITAL MANAGEMENT

The primary objectives of the Co-operative's capital management are to ensure the Co-operative complies with internally and externally imposed capital requirements and that the Co-operative maintains strong credit and healthy capital ratios in order to support its business and maximize member value.

In September 2012, APRA published the final standards relating to the implementation of the Basel III capital reforms in Australia. An important component of the requirements under Basel III in relation to the capital measurement and capital standards is the public disclosure of regulatory information. These requirements are outlined in APRA Prudential Standard APS 330 Public Disclosure. The standard sets minimum requirements for the public disclosure of information on the Co-operative's risk profile, risk management, capital adequacy, capital instruments and remuneration practices. The Co-operative has adopted the new regulatory requirements and published the required information on our website www.dnister.com.au

| **REGULATORY CAPITAL** | 2017<br>$'000 | 2016<br>$'000 |
|---|---|---|
| Capital base | 19,072 | 16,020 |
| Risk weighted assets | 85,218 | 78,159 |
| | % | % |
| Total capital ratio | 22.4% | 20.5% |

## 27. RELATED PARTY DISCLOSURES

### a. DETAILS OF KEY MANAGEMENT PERSONNEL

The Followings persons were Directors of the Co-operative during the financial year:

M. Misko
M. Kornitschuk
M. Kwas
D. Hassett
W. Mykytenko
N. Jurcheshin
A. Pavuk

## 27. RELATED PARTY DISCLOSURES

Continued...

| b. COMPENSATION OF KEY MANAGEMENT PERSONNEL OF THE CO-OPERATIVE | 2017 $'000 | 2016 $'000 |
|---|---|---|
| Short-term employment benefits - salaries | 249 | 255 |
| Post employment - superannuation contributions | 26 | 26 |
| Long term benefits - LSL expense | 5 | 5 |
| Total | 280 | 286 |

| c. DIRECTORS' REMUNERATION (INCLUDED IN 26b. ABOVE) | 2017 $'000 | 2016 $'000 |
|---|---|---|
| Aggregate remuneration of Directors included in the figure above | 52 | 46 |

**d. TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL OF THE CO-OPERATIVE**

The Co-operative enters into transactions, arrangements and agreements involving Directors and the Chief Executive Officer in the ordinary course of business.

The following table provides the aggregate value of loan, investment and deposit products to the Chief Executive Officer, Directors, spouses and related entities:

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| **Loans:** | | |
| Opening balance owing | 461 | 30 |
| New loans advanced | 103 | 440 |
| Net repayments | (34) | (9) |
| Movement from changes in key management personnel | - | - |
| Balance owing at 30 June | 530 | 461 |
| **Revolving Credit Facilities:** | | |
| Total value extended | - | - |
| Balance utilised at 30 June | - | - |
| **Savings and term deposit services:** | | |
| Amounts deposited at 30 June | 1,348 | 1,044 |

All loans disbursed are approved on the same terms and conditions applied to Members generally for each class of their loan. All other transactions between the Key Management Personnel and the Co-operative were conducted on normal commercial terms and there has been no breach of these terms.

## 28. CONTINGENT LIABILITIES AND COMMITMENTS

To meet the financial needs of Members, the Co-operative does enter into irrevocable commitments and contingent liabilities. Even though these obligations may not be recognised on the Statement of Financial Position, they do contain credit risk and are therefore part of the overall risk of the Co-operative. The maximum amount of credit exposure risk for guarantees for 2017 of $122,134 (2016: $403,197) is deemed insignificant.

| The total outstanding commitments and contingent liabilities are as follows: | 2016<br>$'000 | 2015<br>$'000 |
|---|---|---|
| **CONTINGENT LIABILITIES** | | |
| Financial guarantees | 122 | 403 |
| **COMMITMENTS** | | |
| Undrawn commitments to lend | 1,230 | 1,000 |
| Unused overdraft facilities of Members | 3,529 | 3,208 |
| Total | 4,881 | 4,611 |

### CONTINGENT LIABILITIES

Letters of credit and guarantees commit the Co-operative to make payments on behalf of Members in the event of a specific act. Guarantees and standby letters of credit carry the same risk as loans.

### UNDRAWN COMMITMENTS TO LEND

Commitments to extend credit represent contractual commitments to make loans and revolving credits. Commitments generally have fixed expiry dates, or other termination clauses. Since commitments expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

However, the potential credit loss is less than the total unused commitments since most commitments to extend credit are contingent upon Members maintaining specific standards.

### OPERATING LEASE COMMITMENTS RECEIVABLES - CO-OPERATIVE AS LESSOR

Leases in which the Co-operative retains substantially all the risks and benefits of ownership of the leased asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the lease asset and recognised as an expense over the lease term on the same basis as rental income.

The Co-operative has entered into commercial property leases on its investment portfolio, consisting of the Co-operative's surplus office buildings.

These non-cancellable leases have remaining terms of between 1 and 3 years. All leases include a clause to enable upward revision of the rental charge on an annual basis.

## 28. CONTINGENT LIABILITIES AND COMMITMENTS

Continued...

Future minimum rentals receivable under non-cancellable operating leases as at 30 June are as follows:

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| Within one year | 793 | 707 |
| After one year but not more than three years | 613 | 659 |
| After three years but not more than five years | 182 | 16 |
| Total minimum lease payments | 1,588 | 1,382 |

#### LEGAL CLAIMS

The Co-operative had no material unresolved legal claims as at 30 June 2017 (2016: none).

#### ECONOMIC DEPENDENCY

The Co-operative has service contracts with, and has an economic dependency on, the following organisations:

*( a ) Indue* - This entity supplies the Co-operative with services in the form of settlement with bankers for ATM transactions, member cheques and direct entry services and the production of debit cards for use by Members.

*( b ) First Data International* - This company operates the computer switch used to process transactions from the use of Co-operative's debit cards through approved ATM and EFTPOS networks.

*( c ) DataAction* - This company provides and maintains core banking software currently utilised by the Co-operative. DataAction is a major supplier of software to credit unions throughout Australia.

## 29. REMUNERATION OF EXTERNAL AUDITORS

During the years the auditors of the Co-operative earned the following remuneration:

| | 2017 | 2016 |
|---|---|---|
| Audit of Financials | 37,000 | 32,000 |
| Regulatory Audit | 17,000 | 12,000 |
| Taxation Services | 11,000 | 10,000 |
| | 65,000 | 54,000 |

## 30. SUBSEQUENT EVENTS

There were no significant subsequent events after balance date to be brought to the attention of Members for the financial year ended 30 June 2017.

## 31. SEGMENT INFORMATION

The principal activities of the Co-operative during the year were for the provision of retail financial services to all Members and the Ukrainian and Latvian Community of Australia. This takes form of deposit taking facilities and loan facilities as prescribed by the Constitution. The entity operates primarily in one geographical area, Australia.

# Corporate Directory

| | |
|---|---|
| **ESTABLISHED** | Dnister was incorporated in Victoria under the Co-operative Act on 21 September 1959 |
| **REGISTERED OFFICE** | Head Office: 912 Mt Alexander Road, Essendon VIC 3040 Tel (03) 9375 1222 Fax (03) 9370 5361 |
| **BRANCHES** | Adelaide: 62 Orsmond St, Hindmarsh SA 5007 Tel (08) 8346 6174 Fax (08) 8346 2262<br>Geelong: 3/29-35 Milton Street, Bell Park VIC 3215 Tel (03) 5278 5950 Fax (03) 5277 9108<br>Mitcham: 3/329 Mitcham Road, Mitcham VIC 3132 Tel (03) 9873 3044 Fax (03) 9873 3244<br>Perth: 20 Ferguson Street, Maylands WA 6051 Tel \| Fax (03) 9271 5984<br>Strathfield: 32-34 Parnell Street, Strathfield NSW 2135 Tel (02) 9747 6279 Fax (02) 9715 5556 |
| **EXTERNAL AUDITORS** | Ernst & Young, 8 Exhibition Street, Melbourne VIC 3000 |
| **INTERNAL AUDITORS** | KS Nathan, Siva Harris & Trotter Pty Ltd, Chartered Accountants. PO Box 1148, Tullamarine VIC 3042 |
| **LEGAL CORPORATE ADVISORS** | Wisewould Mahony Lawyers, 419 Collins Street, Melbourne VIC 3000 |
| **BANKERS** | Indue Ltd, Level 3, 601 Coronation Drive Toowong QLD 4066<br>Westpac Banking Corporation, 260 Queen Street, Brisbane QLD 4000 |
| **INSURERS** | QBE Insurance Group Ltd, Level 2, 82 Pitt Street, Sydney NSW 2000 |